



# FACT SHEET BUSH "STIMULUS" PLAN

PREPARED BY: DEMOCRATIC STAFF, SENATE BUDGET COMMITTEE

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## **BUSH "STIMULUS" PLAN IS INEFFECTIVE, IRRESPONSIBLE AND UNFAIR**

The President's new tax cut plan is wrong for the country in almost every possible way:

- **Ineffective:** It would not provide the stimulus needed to ensure that the U.S. economy will rebound from the current economic slowdown this year;
- **Irresponsible:** It would increase federal budget deficits by nearly \$1 trillion over the next ten years (including associated interest costs), slowing long-term economic growth and making it harder to meet the demands the retirement of the baby boom generation will have on Social Security and Medicare; and,
- **Unfair:** It would use funds borrowed from Social Security to cover the increased deficits to pay for a tax cut that overwhelmingly benefits the wealthiest Americans.

### **Proposal to Eliminate Taxes on Dividends Would Fail to Stimulate Economy**

The centerpiece of the President's plan – his proposal to eliminate taxes on dividends – fails virtually every test of what should be contained in a stimulus package.

#### *Won't provide immediate stimulus that is needed*

Economists are virtually unanimous that this proposal would not provide significant near-term stimulus to help boost economic growth to a higher, sustainable rate this year. Less than \$25 billion of tax relief would result in 2003, and since the benefits go primarily to high-income individuals, only a relatively small portion of that would go toward increased consumption that will stimulate the economy in the near term.

#### *Long-term deficit problem would be worsened*

But the proposal would significantly affect the federal budget in the long run – costing \$364 billion (\$473 billion including associated interest costs) over the next ten years, with the vast majority of the costs (more than 90 percent) occurring after the current year, when the stimulative effect is needed. This will raise interest rates and slow long-term growth.

#### *Unfairly funnels benefit to the wealthiest*

The proposal primarily cuts taxes for the wealthiest Americans. More than half of the benefits from eliminating the taxation of dividends would go to the two percent of taxpayers with the highest incomes. The three-fifths of taxpayers at the bottom of the income

distribution would receive less than 5 percent of the benefits of this tax cut. For taxpayers earning about \$25,000, the average cut would be about \$27 a year. For taxpayers with more than \$1 million in income a year, the average cut would be \$27,000.

### **Other Proposed Tax Cuts are Similarly Unfair and Lacking in Stimulus**

The President has proposed a variety of other tax cuts, including accelerating the upper income-tax rate cuts that were enacted in 2001, but are scheduled to take effect in 2006.

Like the elimination of taxes on dividends, the acceleration of upper bracket rate cuts is unfair and lacking in stimulus. Almost 54 percent of the benefit of accelerating the rate cuts would go to the one percent of taxpayers with the highest incomes, while only two-tenths of one percent would go to the 60 percent of taxpayers at the bottom of the income scale.

When you factor in all of the President's proposals, Americans earning at least \$1 million a year would receive on average a tax cut of nearly \$89,000. That's a far cry from what the typical middle income family would receive. Taxpayers making between \$21,000 and \$38,000 would receive on average a tax cut of \$265.

### **Proposals to Help Unemployed, States, and Middle Class Are Inadequate**

The President does include some proposals that could help provide needed stimulus – an extension of unemployment benefits, state fiscal relief, and tax cuts for middle-class parents – but his proposals in these areas are inadequate and small (in the case of net relief for states, virtually nonexistent) compared to the elimination of taxes on dividends.

### **When Combined With the President's Other Proposals, the Bush "Stimulus" Plan Will Lead to Huge Long-Term Deficits**

Under the President's overall budget proposals – which include making the tax cuts enacted in 2001 permanent, substantially increasing defense spending (over and above what is needed for a war with Iraq), and providing a Medicare prescription drug benefit – when you exclude Social Security we are already looking at deficits for as far as the eye can see. In order to provide benefits that would overwhelmingly go to the wealthiest Americans, the President is now proposing to increase those deficits even further.

### **A Responsible Bipartisan Stimulus Plan Is Needed**

While temporary tax cuts and increases in spending that increase the deficit in the short run are justified, because they can help get the economy back on track, it would be a huge mistake to adopt the President's plan. That plan would increase the deficit by almost \$1 trillion (including associated interest costs) and slow long-term economic growth. Instead of trying to push this fatally flawed plan, the President should work with Democrats and Republicans in Congress to adopt a fiscally responsible budget plan that allows for short-term stimulus and long-term growth while putting us in a position to provide for the needs of the baby-boom population, which will begin to hit retirement age before the end of this decade.